

Business Indicators ♦ April 2010

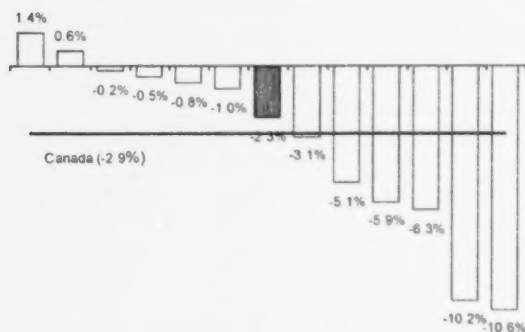
Economy shrinks for first time since 1982

BC's economy shrinks for first time since 1982, but fares better than other parts of the country

British Columbia's economy shrank 2.3%¹ in 2009, as the province, together with most other regions of Canada, felt the effects of a global recession. The downturn in 2009 marked the first time since 1982 that total annual output in the province has declined. It came on the heels of lacklustre growth in 2008, when the economy inched ahead just 0.2%.

BC among the provinces least affected by the economic downturn in 2009

Annual change, 2009, GDP at basic prices, all industries



YT PEI Man NB Que BC Ont Alta NWT Sask Nfld Nun

Data source: Statistics Canada

The Canadian economy contracted 2.9% in 2009, as every region except Yukon (+1.4%) and

¹ Gross domestic product (GDP) figures quoted in this article are reported in chained (2002) dollars. Chained data have been adjusted to remove the effect of price variations. They can be viewed as estimates of the volume of output. In this document, chained GDP figures are referred to as "real GDP".

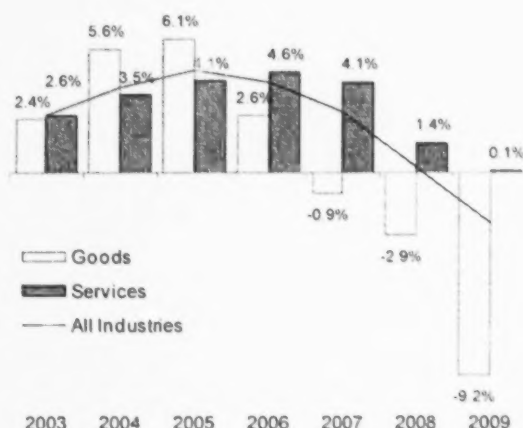
PEI (+0.6%) slipped into recession. Among the larger economies, BC (-2.3%) and Quebec (-1.0%) were not nearly as hard-hit as Ontario (-3.1%) and Alberta (-5.1%).

Recession in goods sector hampers growth in service industries

All of the major goods-producing industries, and many of those in the service sector, contracted in 2009. The decline in the goods sector was significant, with GDP plunging (-9.2%) for an unprecedented third straight year. The service sector managed to remain in positive territory, but just barely, eking out a 0.1% increase—the first time since 1982 that the sector as a whole has failed to grow.

Goods sector shrinks for a third straight year

Annual % change, GDP at basic prices, BC



Data source: Statistics Canada

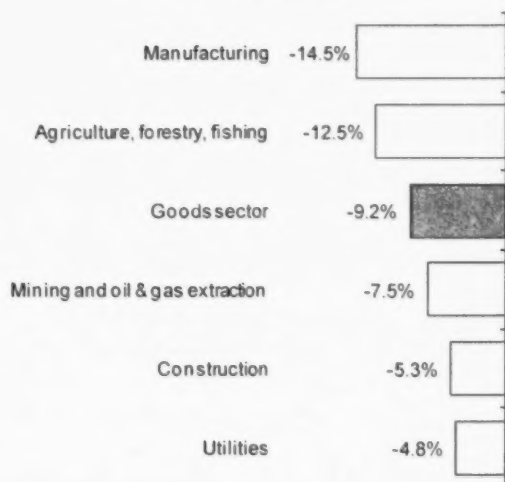
Demand for BC export commodities such as forest, energy and metal products crumbled in

2009 as the US and other economies slipped into recession. With bad economic news dominating the headlines, businesses and consumers kept a lid on their spending, and the recession, which already had the province's goods sector in its grip, spread into other parts of the economy.

All goods-producing industries...

Goods-producing industries have faced significant challenges in recent years. While all of the industries in the goods sector lost ground in 2009, the general economic malaise hit some harder than others. Those most affected were already on a downward path, and last year's events may have pushed some of them into territory from which it could be difficult to fully recover, at least in the short run.

All industries in the goods sector shrank in 2009



GDP at basic prices (\$2002, chained), annual change in 2009
Data Source: Statistics Canada

Manufacturing contracted 14.5% in 2009, as wood manufacturing shrank (-18.8%) for a third straight year, and the paper industry (-16.0%) marked its fourth straight yearly decline. While most manufacturing industries shrank, the food products industry bounced back (+3.1%) from a downturn in 2008.

GDP in agriculture, fishing & forestry was down 12.5%, largely due to a slump (-18.8%) in primary forestry and logging activities. In mining, oil & gas extraction (-7.5%), support activities such as drilling (-11.1%) and mining (-10.9%) fell back significantly, while the oil & gas extraction industry contracted 4.2%. Since the beginning of the decade, the importance of oil & gas extraction has been growing; it now accounts for about three quarters of the mining, oil & gas extraction industry's total GDP.

A 5.3% drop in construction was largely due to a slump in the market for new housing. GDP associated with residential construction activities fell 15.8% during the year, and oil & gas engineering (-5.2%) and repair construction (-2.4%) were also down. Most other types of engineering construction made solid gains during 2009.

...and most industries in the service sector post declines

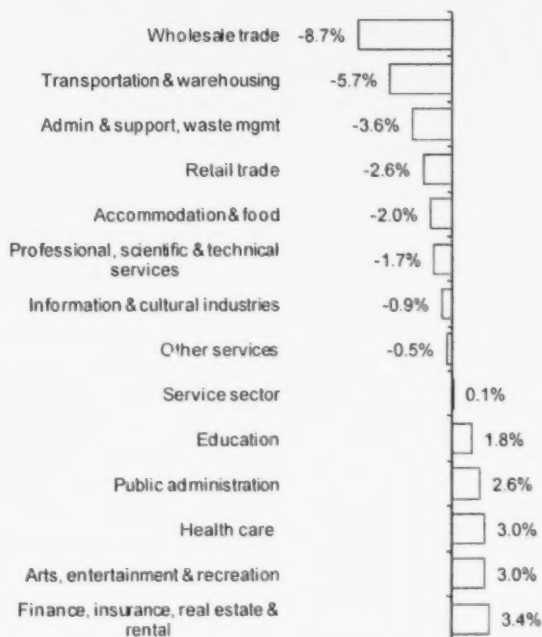
In the service sector, wholesale trade (-8.7%) and transportation & warehousing (-5.7%), recorded the largest declines. Both industries have strong ties to the goods sector, but also provide services to consumers. For example, while wholesalers supply products used by goods-producing industries, they also provide goods to retail outlets. Some sell directly to consumers.

The transportation industry moves freight as well as passengers. BC's location on the west coast of the country means that the province is often a port of entry or exit for goods in transit to or from other regions. Given the global economic situation, it is hardly surprising that these industries were more severely affected by the downturn than others in the service sector.

Administrative & support and waste management industries, which include services such as office administration, employment and travel agencies, saw output fall 3.6%. GDP in

retail trade shrank 2.6% as consumers reduced their purchases.

In the service sector, it was more of a mixed bag, with some industries posting modest growth while others contracted



GDP at basic prices (\$2002, chained), annual change in 2009

Data Source: Statistics Canada

The accommodation and food services industry saw a 2.0% drop, partly because travel to BC from the US and overseas declined. Professional, scientific & technical services (-1.7%), which includes engineers, architects, accountants, computer services, and other types of professional services, also took a hit, as a slowdown in construction and business investment reduced the demand for their services.

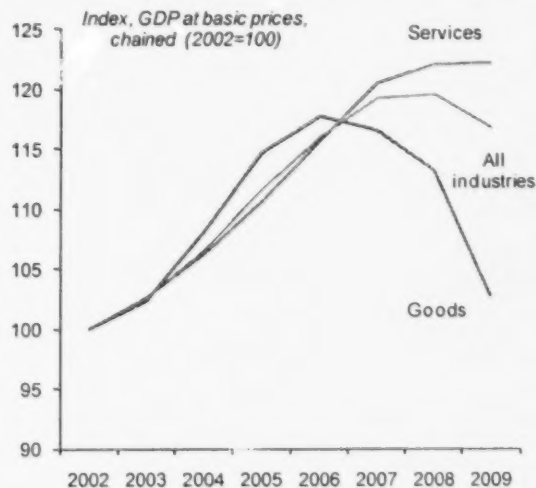
Industries with strong ties to the public sector continued to grow. Education (+1.8%), public administration (+2.6%) and health care (+3.0%) all expanded their output in 2009. In the private sector, arts, entertainment & recreation (+3.0%) and finance, insurance, real estate and rental &

leasing (+3.4%) were the only major industries to post increases.

Recession in goods sector deepens in 2009

The province's service-producing industries have expanded 22% since 2002. Over the same period, real GDP in the goods sector has increased only marginally (+3%), partly because a prolonged downturn during the last three years has eroded away most of the growth that occurred during the early part of the decade. It is not uncommon for goods industries to go through periods of growth and decline, but this is the first time since at least 1961² that there has been such a long downturn in the goods sector.

Output in the goods sector falls back to levels not seen since the early part of the decade



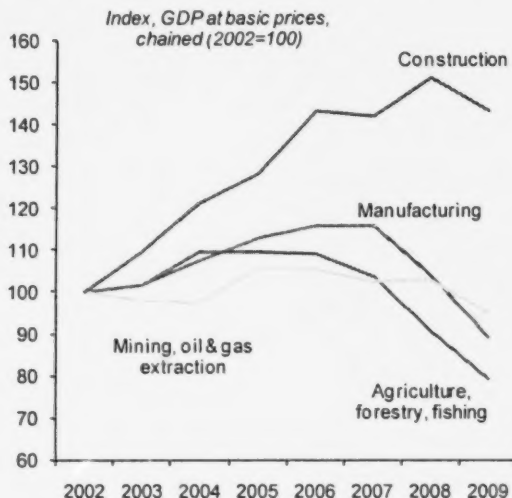
Data Source: Statistics Canada

The manufacturing sector has been shrinking since 2007 as have primary industries such as agriculture, forestry and fishing. At the same time, construction has been picking up speed, expanding 43% since 2002. It is now the largest employer in the goods sector, although its share

² The first year for which this information is available.

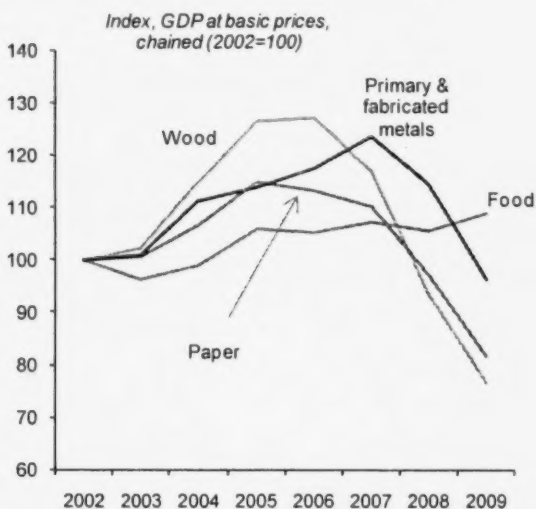
of total GDP is still lower than that of the manufacturing industry.

Construction is the only industry in the goods sector that has expanded since 2002



Data Source: Statistics Canada

Much of the recent decline has been in resource-related manufacturing



Data Source: Statistics Canada

Among key manufacturing industries, output in both the wood and paper industries has fallen about 20% since 2002. The value added by producers of primary metals, fabricated

metals and non-metallic minerals has also declined. However, BC's food industry has expanded 9%, and is now the second largest manufacturing industry in the province³. Producers of computers and electronic products took a hit in 2009, but that industry has also seen output rise over the longer term.

Volatility in goods sector usually dampened by service sector growth, but not in 2009

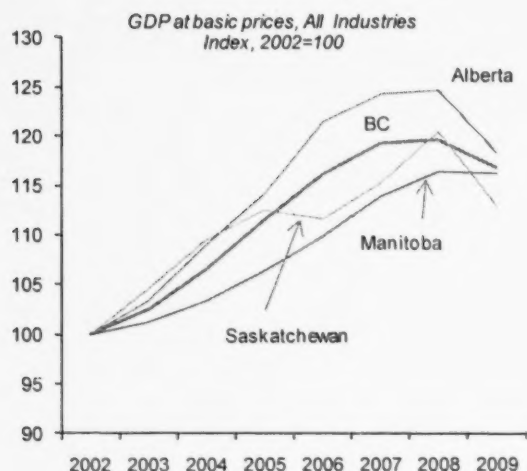
Most of BC's resource-based products are destined for sale outside the province, so changes in global economic conditions can affect the demand for these products. Other than transportation and warehousing, many of the key service industries are largely consumer-oriented, so they are less vulnerable to changes in demand that originate outside the province.

With nearly 80% of total GDP originating in service-producing industries, BC is more dependent on the service sector than any other province. This has helped keep the economy on a steady upward path despite volatility in the resource-based industries, which tend to experience boom and bust cycles. Although the goods sector has slipped into recession eleven times⁴ since 1981, including each of the last three years, BC's economy has expanded in all but two years—1982 and 2009. Both times, the general downturn occurred because a recession in the goods sector was matched by weakness in service industries. Last year, the combined effect of lower consumer, business, and non-resident demand for BC services brought growth in the service sector to a halt for the first time since 1982.

³ Despite recent events, wood products continue to account for about a quarter of total GDP in manufacturing, more than the food and paper manufacturing industries combined.

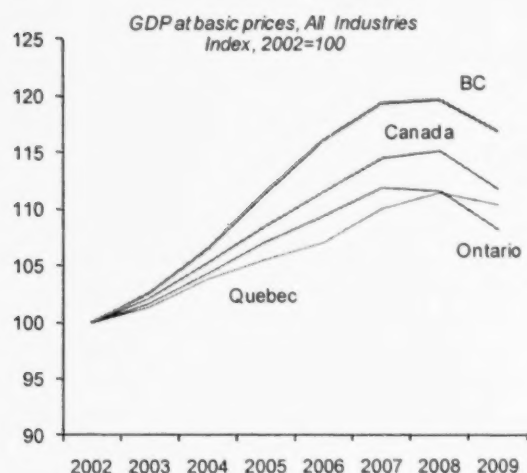
⁴ Real GDP in the goods sector shrank in 1981, 1982, 1986, 1990, 1991, 1996, 1998, 2001, 2007, 2008 and 2009.

Western provinces have been on an expansionary path...



Data source: Statistics Canada

...while Ontario and Quebec have posted only modest growth

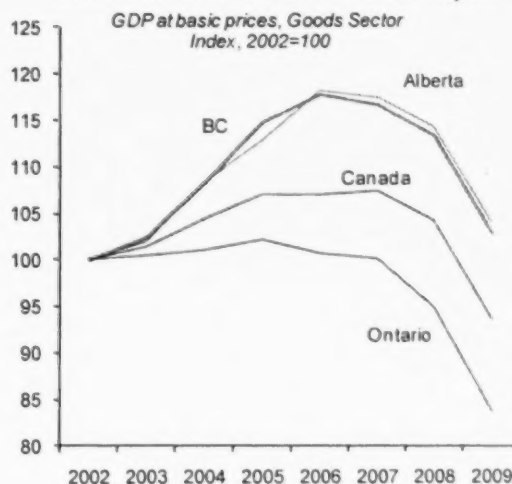


Data source: Statistics Canada

The western provinces and Newfoundland, where the energy sector fuelled growth during most of the decade, are the only regions where there has been significant economic expansion since 2002. BC's economy has grown 17%, well above the 12% increase for the country as a whole. In fact, all four western provinces have outperformed the national average. However,

the stronger-than-average growth here is not just an indication of relatively robust economic conditions in this part of the country. It also reflects weak economic conditions in central Canada. Ontario has seen output in goods-producing industries shrink 16% since 2002. The decline in Ontario's goods sector began in 2006, well in advance of the global recession; recent events just served to exacerbate the problem. Quebec has fared a little better, but only marginally. Its goods sector saw virtually no growth during the period from 2002 to 2008.

While goods industries in central Canada languished, BC and Alberta made gains early in the decade that have since been wiped out



Data source: Statistics Canada

Reasons underlying the downturn in the goods sector vary among provinces. In Ontario, where manufacturing dominates goods production, much of the decline can be traced back to the manufacturing sector, where every industry except food, computer and miscellaneous manufacturing has lost ground since 2002. Quebec has also seen much of its manufacturing sector fall into decline during this period.

Canada's energy sector, which had helped fuel strong growth earlier in the decade, lost steam during 2009, and this put the brakes on

economic growth in the resource-dependent economies of Newfoundland, Alberta, Saskatchewan and NWT. In Newfoundland and Alberta, energy production accounts for more than a fifth of total GDP.

The decline in BC's goods sector was almost exactly mirrored in Alberta, although the underlying reasons for the downturn there are different. In Alberta, mining, oil & gas extraction has been contracting, while most other industries in the goods sector were, until 2009, on an upward path. In BC, much of the decline originates in manufacturing, especially forest products.

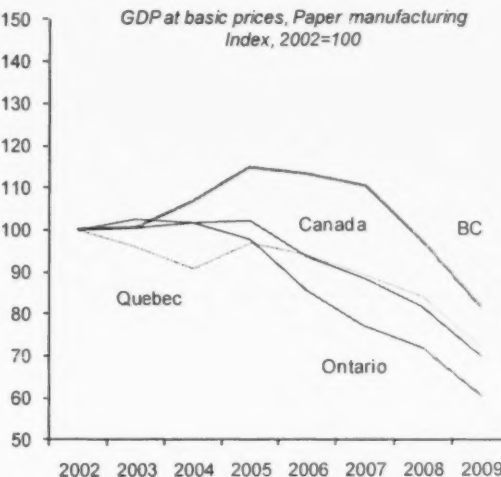
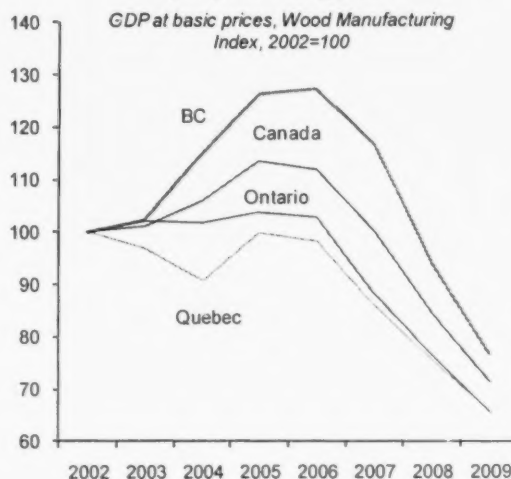
Manufacturing industries in decline



Data source: Statistics Canada

BC's wood and paper industries have faced big challenges, and have lost a lot of ground in recent years. However, during the early part of the decade, producers of BC forest products outperformed those in Ontario and Quebec, the two other major wood- and paper-producing provinces. Growth in the early part of the decade has meant that the long-term decline in BC's forest products industries has not been as extreme as in Ontario and Quebec.

Forest-related manufacturing slumping in all major producing provinces



Data source: Statistics Canada

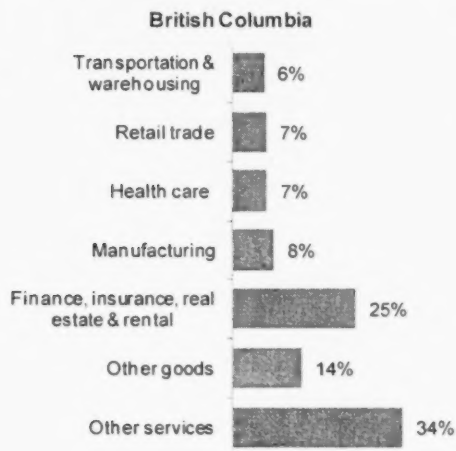
Other factors drive BC economy

BC's economy shrank in 2009, and recent trends in some of the goods industries are not encouraging. However, service industries have helped boost economic growth in recent years. It is likely that they will continue to do so.

Four of the five largest industries in the province derive at least part of their business from providing services to consumers. While some of these services (e.g., travel) may be

discretionary, others are not. This means that even in times of economic stress, the demand for some types of services is unlikely to be greatly reduced, since factors such as population growth or changes in the age structure of the population also play a role.

In BC, the largest industries are in the service sector...



Percent of total GDP at basic prices, 2009

Data source: Statistics Canada

...while Alberta's economy has stronger ties to goods production



Percent of total GDP at basic prices, 2009

Data source: Statistics Canada

In contrast, other provinces such as Alberta and to a lesser extent Ontario rely more on goods production as a source of economic growth. During periods of global economic expansion, these economies enjoy robust growth. But when markets dry up, and external demand for goods is reduced, an economy that is less reliant on external markets is less vulnerable. BC's economy faced big challenges in 2009, but despite shrinking 2.3%, the province as a whole felt less economic pain than most other parts of the country.

